# US Market Wrap

## 5th April 2024: Stocks jump and bonds dump after NFP tops all forecasts

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Hot US jobs report; Fed hawks downplay rate cuts; Weak Canada jobs report; Israel and US convinced Iran is preparing to retaliate for Israeli strike; Weak German industrial orders; Musk denies TSLA is to scrap low cost car plans; JNJ to buy SWAV.
- **WEEK AHEAD**: Highlights include US CPI, ECB, FOMC Minutes, BoC, RBNZ, China inflation. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing FOMC minutes, ECB, BoC, RBNZ, BoK; Reviewing RBI, minutes from ECB and RBA. To download the report, please click here.

## MARKET WRAP

Stocks rallied Friday after shaking off a knee-jerk sell-off to the hot US jobs report. The 303k jobs added (exp. +200k; prev. +270k), just in line AHE (+0.347% M/M), and fall in U rate 3.8% (exp. unch. at +3.9%) saw big selling in Treasuries as part of the broader hawkish reaction, with money markets now pricing in 65bps of cuts this year vs 70bps+ right before the data. A June rate cut is now just over a 50% probability vs 70% before the data, with all attention now on next Wednesday's CPI. Note that the front end remained pressured with Fed hawks Logan (non-voter) and Bowman (voter) the latest officials to push back on rate cut expectations. Oil and Gold extended their bid with geopolitical uncertainty remaining high into the weekend with reports in CBS today (citing US officials) suggesting Iran could retaliate by the end of Ramadan next week in a drone attack. In FX, the Dollar initially caught a bid, but faded into the close with the broader risk rally.

## US

**NFP**: Headline NFP was hotter than all analyst forecasts. The economy added 303k jobs in March, above the 200k forecast, the 270k prior and above the highest analyst estimate of 250k. The unemployment rate eased to 3.8% from 3.9%, despite expectations for it to be left unchanged while the labour force participation rate rose to 62.7% from 62.5%. The report yet again shows a strong US labour market although it is worth noting that Fed Chair Powell had suggested that a strong labour market would not be a reason to delay rate cuts. The Fed Chair stated that strong job growth is not a reason for the Fed to be concerned about inflation, as job growth is stemming from an increase in the size of the labour force. Wages rose 0.347% M/M, just about in line with the 0.3% forecast while Y/Y wages rose 4.1%, in line with the expected and easing from the prior 4.3%. Money markets now discount 67bps of easing throughout 2024 vs 73bps pre-data, similar to levels at the beginning of the week after the hot manufacturing ISM report. All eyes turn to US CPI next week to further help shape Fed policy expectations. Looking ahead, analysts at Pantheon Macroeconomics write that "The steep drop in the NFIB survey’s hiring intentions measure and the increase in layoff announcements points to much slower payroll growth in the spring and early summer." PM note that the NFIB has been the best leading indicator of private payroll growth over the past couple of years, and "it is now consistent with a sustained slowing, to the point where private payrolls could fall outright by June or July."

## FED

**BOWMAN** (Voter, Hawk) said it is not yet time for the US to consider cutting interest rates, and her baseline outlook continues to be that inflation will decline further with the policy rate held steady at its current level and that Fed policy is appropriately calibrated for the state of the economy. Note there were two Fed dots that saw no cuts this year and one that saw no cuts in 2025 either. Bowman acknowledged the Fed will eventually cut rates if inflation continues to ebb, but cutting too soon risks an inflation rebound. She said progress on lowering inflation has stalled, but a deterioration in economic conditions would affect the policy view. She also said in post-speech commentary that she would not be comfortable cutting until disinflation returns. She repeated that while unlikely, it is possible the Fed may have to hike rates again to cool inflation. Bowman expects more declines in inflation amid a strong economy but sees slower progress in cooling inflation this year. She also noted that some job market vigour is tied to part time workers and immigration. Bowman added that a change in the neutral rate could limit how much the Fed ultimately cuts rates by. On the balance sheet, Bowman said there is some ways to go in shrinking the size of the balance sheet.

**LOGAN** (2026 voter, Hawk) said it is too soon to think about cutting rates, given upside risks to inflation. The Fed needs more uncertainty resolved about which economic path the economy is on. She is increasingly concerned about upside risks to the outlook and the key risk is not that inflation might rise, but rather that inflation will stall out, failing to return to 2% in a timely manner. On recent data, she said the Dallas Fed trimmed mean showed January inflation was not a story of outliers, noting the entire distribution of price changes shifted to the right. She acknowledged that residual seasonality could help explain the firm January data, but if so, the improvement in H2 23 was overstated. The February data, though better than January's, still was not great. On policy, Logan is concerned it may not be as restrictive as most forecasts assume and that the FOMC should remain prepared to respond appropriately if inflation stops falling. She also said that the Fed cannot wait until inflation reaches 2% to cut rates, but the risk of cutting rates too soon is higher than being late. Logan added inflation data is more important than jobs and GDP right now. On the neutral rate, Logan noted failing to recognize a sustained move up in the neutral rate could lead to over accommodative monetary policy, adding economic and financial evidence is suggesting the long-run rate has likely moved up, noting some models estimate a neutral rate above 4% and none of them are as low as the Fed median of 2.6%. Logan said she is taking evidence of sustained shifts in the neutral rate into account when she formulates her views on appropriate policy. On the balance sheet, Logan said it will soon be appropriate for the Fed to slow (not stop) the balance sheet runoff. A slower runoff pace will still give banks time to redistribute liquidity. A taper will also lower risks of going too far, and will not have much of an impact on financial conditions. She also said that to slow the asset runoff, it would change the Treasury cap, not MBS.

**BARKIN** (2024 Voter, Hawkish) said that March NFP was quite a strong jobs report, stating the job market is very strong and people are reluctant to lay people off. Barkin also said the reduction in inflation has been an unbalanced mix, while in conversations with contacts, the largest issue is housing.

## FIXED INCOME

**T-NOTE (M4) FUTURES SETTLE 15 TICKS LOWER AT 109-21**

**Treasuries sold off Friday with hawkish Fed Speak seeing the front end underperform**. At settlement, 2s +10.3bps at 4.744%, 3s +10.2bps at 4.557%, 5s +9.2bps at 4.382%, 7s +8.9bps at 4.393%, 10s +8.3bps at 4.392%, 20s +7.4bps at 4.648%, 30s +7.2bps at 4.543%.

**INFLATION BREAKEVENS**: 5yr BEI +1.5bps at 2.428%, 10yr BEI +1.1bps at 2.382%, 30yr BEI +0.9bps at 2.324%.

**THE DAY**: T-Notes drifted sideways during APAC Friday trade, just off the Thursday peak of 110-06 on the back of the haven bid. Contracts then began seeing downside during European trade with the back end leading, with 109-28 the pre-NFP low. In Europe, EU retail sales fell more than expected M/M, while German industrial orders rose less than expected M/M.

In reaction to the 300k jobs added (exp. +200k; prev. +270k), just in line AHE (+0.347% M/M), and fall in U rate 3.8% (exp. unch. at +3.9%), T-Notes fell from 110-01 to 109-20 in an immediate reaction, before extending to lows of 109-15 within five minutes, which marked the session lows. Contracts managed to recover to 109-30 later in the NY morning before drifting back lower again into the afternoon. Hawkish remarks from Bowman and Logan, who both pushed back on rate cuts, kept the bearish pressure on from the front end, with the curve closing in a bear-flattener.

Participants are now looking to next week's 3s, 10s, 30s supply on Tues, Weds, and Thurs, respectively, not to mention the critical March CPI print on Weds and PPI Thurs. ECB is due on Thursday too.

**STIRS**:

- SR3M4 -5.5bps at 94.83, U4 -7.5bps at 95.07, Z4 -9bps at 95.33, H5 -11bps at 95.56, M5 -12.5bps at 95.76, U5 -13bps at 95.92, Z5 -13bps at 96.03, H6 -11.5bps at 96.11, M6 -11bps at 96.155, M7 -7.5bps at 96.23, M8 -7bps at 96.175.
- SOFR flat at 5.32%, volumes fall to USD 1.974tln from 1.985tln.
- NY Fed RRP op demand at USD 0.438tln (prev. 0.439tln) across 67 counterparties (prev. 66)
- EFFR flat at 5.33%, volumes flat at USD 93bln.

## CRUDE

**WTI (K4) SETTLES USD 0.32 HIGHER AT 86.91/BBL; BRENT (M4) SETTLES USD 0.52 HIGHER AT 91.17/BBL**

**Oil prices rallied through the US session on Friday with risk assets before a late session bout of profit-taking despite heightened geopolitical risk**. Oil prices have come a long way higher on the week, and on Friday, WTI (K4) and Brent (M4) futures went on to hit new peaks of USD 87.63/bbl and 91.91/bbl, respectively, in the NY afternoon, seemingly tracking the move higher in stocks. However, there was some profit taking into the settlement, that was despite weekend risk remaining high with recent CBS reports, citing US officials, that Israel and the US are convinced Iran is preparing to retaliate for the Israeli strike on the Iranian consulate in Syria, and that an attack (likely via drones and missiles) is likely to come between now and the end of Ramadan next week. Elsewhere, as previously suggested, Saudi Aramco has raised its OSPs for May, reflective of the strong rally in benchmarks. The Baker Hughes US rig count (w/e April 4th) saw oil rigs up two at 580 and Nat Gas down two at 110. Finally, be aware of a dam burst in Russia's Orsk, which is on the border of Kazakhstan and does house some refining and pipeline facilities albeit there has been no updates on the status of those facilities since.

## EQUITIES

**CLOSES**: SPX +1.11% at 5,204, NDX +1.28% at 18,108, DJI +0.80% at 38,904, RUT +0.47% at 2,063.

**SECTORS**: Communication Services +1.61%, Industrials +1.43%, Technology +1.38%, Energy +1.08%, Health +0.91%, Financials +0.89%, Consumer Discretionary +0.94%, Materials +0.92%, Real Estate +0.65%, Utilities +0.34%, Consumer Staples +0.22%.

- **EUROPEAN CLOSES**: DAX: -1.30% at 18,164, FTSE 100: -0.81% at 7,911, CAC 40: -1.11% at 8,061, Euro Stoxx 50: +0.05% at 5,013, IBEX 35: -1.58% at 10,916, FTSE MIB: -1.29% at 34,011, SMI: -1.72% at 11,490.
- **Samsung Electronics**: The world's largest maker of DRAM memory chips expects to report Q1 prelim operating profit +931% Y/Y as chip prices rebound.
- **BlackRock (BLK)** +0.8%: Bluebell Capital Partners seeks to remove BlackRock founder Larry Fink as chairman, proposing a resolution requiring an independent director
- **Shockwave Medical (SWAV)** +1.9%: To be acquired by **Johnson & Johnson (JNJ)** for USD 335/shr in cash or USD 13.1bln. Note, SWAV closed Thursday at USD 319.99/shr.
- **Becton Dickinson (BDX)** +1.3%: Citi opens a 90-day positive catalyst watch. Said that the headwinds (FX and inflation), that impacted Q1 margins should begin to abate.
- **Snowflake (SNOW)** +1.75%: Upgraded at Rosenblatt citing healthy customer interest in the platform.
- **Western Digital (WDC)** +4%: Upgraded at Rosenblatt saying it should benefit from a broad rise in prices for a key type of memory chip.
- **Krispy Kreme (DNUT)** +7.5%: Upgraded at Piper Sandler; said Co. is on the verge of a major growth move after a deal with McDonald's last week.
- **Tesla (TSLA)** -3.6%: Scraps low cost car plans amid fierce Chinese EV competition, according to Reuters sources. However, CEO Musk later replied saying "Reuters is lying, (again)."
- **Sapiens (SPNS)** +4.4%: Co. is reportedly exploring a sale, according to Reuters sources.

## US FX WRAP

**The Dollar** saw two-way price action on Friday with the very strong jobs report initially sending DXY to a peak of 104.70 before paring throughout the rest of the session to the largely unchanged mark. The hot report is unlikely to alter Fed calculus too much given Fed Chair Powell has suggested a strong jobs market would not be a reason to delay Fed rate cuts. Nonetheless, in wake of the data Fed's Logan (hawk) said it is too soon to think about cutting rates but said that the inflation data is more important than labour market data. Governor Bowman (hawk) also said it is not yet time to consider cutting rates.

**The Euro** was flat vs the Dollar with EUR/USD trading between 1.0792-1.0847. German Import prices and Industrial Orders missed expectations while the EU Construction PMI fell to 42.4 from 42.9 but EU retail sales for February beat Y/Y, missed M/M. Attention now begins to focus on next Thursday's ECB meeting.

**The Yen** was slightly softer vs the buck with higher UST yields weighing on the Yen while BoJ Governor Ueda said he is not going to comment on short-term FX moves but it is important for FX rates to stably reflect fundamentals. On policy, Ueda said the BoJ will not start reducing their huge ETF holdings any time soon and there is no plan to sell the BoJ's JREIT holdings anytime soon. However, it does hope to reduce the amount of its JGB buying and its JGB holdings in the future.

**The CAD** was the laggard after a soft jobs report which saw a surprise negative print while the unemployment rate rose to 6.1% from 5.9% with the CAD weakness amplified by a strong US jobs report at the same time.

**Antipodes** saw marginal weakness but finished the session well off the post-NFP lows as the Dollar lost its high ground and as equity markets rallied. The same occurred in the Pound which finished the session unchanged vs the Buck and Euro.

**EMFX** was mixed. MXN saw notable gains, COP also saw gains on rising oil prices. BRL was slightly down but CLP underperformed in LatAm FX. In Brazil, President Lula is reportedly considering a cabinet reshuffle, according to Folha, meanwhile IGP-DI Inflation was a touch hotter than expected, but still saw a 0.3% decline. Elsewhere, in CEE, HUF was the relative outperformer after strong retail sales data vs the Euro with PLN and CZK flat.